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US MARKETS · BREADTH, LIQUIDITY & THE ELECTION CYCLE

A once in a 100 year opportunity

Most people aren't ready. The headline index looks calm, but most of the market has already fallen, and 3 forces are lining up at once, right at the midterms.

FELIX PREHN

Economist and former investment banker
The Prehn Institute

SCOPE

Educational companion to the video of the same title.

RATING

None

PRICE TARGET

None

6 out of 10 American stocks are already in a bear market, down more than 20% from their highs. That is not the top of a bubble. It is most of the pain already taken.

And 3 separate forces are about to push money in the same direction at the same time: the AI fear clearing, the election uncertainty clearing, and fresh money flooding in at the fastest pace in about 4 years.

3

forces lining up at once, right at a midterm, the rarest part of this setup

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About Felix Nikolas Prehn and The Prehn Institute

Felix Nikolas Prehn

Felix Nikolas Prehn is an economist and former investment banker. He writes and lectures on how the financial markets actually work, with a focus on how ordinary savers can protect what they have built.

The Prehn Institute

Felix Nikolas Prehn is the founder of The Prehn Institute, which publishes research on the financial markets and provides instruction in how they work. The Institute gives no financial advice. It takes no sponsorships and no endorsements, so its work answers to its readers and to nobody else.

The purpose of this briefing

This document is the written companion to the video of the same title. It follows the same material and the same order, so you can read it beside the video or on its own. The aim is not to call the exact day of the next market move. It is to explain, in plain terms, why most of the market has already fallen, why the midterms are the trigger, and what the skilled money does with a setup like this.

Find the work

youtube.com/@felixprehn

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How to use this briefing.

Read it beside the video. The sections follow the same order. Each one answers a plain question: what is really going on under the headline number, and what does the skilled money do about it?

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CHEAP, PLUS FEAR LIFTING, PLUS A WALL OF MONEY

The calm headline is hiding the real story

The one number on the news, the S&P 500, is holding up fine. Underneath it, nearly 6 in 10 American stocks are already down more than 20% from their highs. Most of the market has already been through the fire.

The most watched strategist on Wall Street has called this one of the best setups of his career. Not a reason to run. A reason to get ready.

Most stocks have already fallen hard → **The AI and election fear is clearing** → **Fresh money floods in, looking for a home**

WHAT YOU ARE WATCHING

The index is up on the year and making new highs. But that index is not really 500 companies any more. It is about 8.

When those few go up, the whole thing goes up, and it drags the headline along with it, while most of the other names bleed out of sight.

WHY IT IS HOPE, NOT FEAR

A market where most stocks have already fallen a long way is not the top of a bubble. The top is when everything rises together and nobody is worried.

This is closer to the opposite. Most of the damage, for most of the market, has already happened.

THE RARE PART

It is rare for even one of these to line up. Having all 3 arrive together, right at a midterm, is the thing I have genuinely not seen in my career.

WHY IT MATTERS TO YOU

It pours into a certain kind of company and leaves the rest. The difference is whether you are positioned before it moves, not after.

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THE BEAR MARKET BENEATH THE SURFACE

The index looks fine. Most stocks don't.

Nearly 6 in 10 stocks across the whole American market are already down more than 20% from their highs. That is the technical definition of a bear market, and most of the market is already in one. It is just happening behind a green headline number.

6 in 10

US stocks already down more than 20% from their highs

9 in 10

chip makers down more than 20%

4 in 10

chip makers that have lost half their value

THE SURE THING FARED WORST

The companies at the very centre of the artificial intelligence story. More than 9 in 10 of them are down over 20%, and roughly 4 in 10 have lost half their value. These are the names people were told could only go up.

HOW THE INDEX HIDES IT

A tiny handful of giant technology names now make up around 40% of the whole index. At the dot-com peak in the year 2000, the biggest 10 were about 26%. So the thing you were sold as spread out and safe is more lopsided than the last great bubble.

WHAT THAT MEANS FOR YOU

If you bought the index and tucked it away, you think you are diversified. In reality you are leaning on a handful of names, and the rest are falling underneath you. The day one of them trips, the whole thing wobbles, and it is your money underneath.

WHY THIS IS THE GOOD NEWS

The question is not whether the damage is coming. For most stocks, it has already happened. The question is what comes next, and who gets paid when it does.

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WHY THE MIDTERMS ARE THE TRIGGER

The most predictable event on the calendar

> Every election opens the spending taps. Some of that money lands in the real economy, and a chunk ends up in the market, bidding up the price of the things people own. And the history after midterms is one of the most consistent patterns in the whole market.

~14%	~16%	2023
average S&P return in the 6 months after a midterm	average S&P return in the 12 months after a midterm	a grim-headline year the market won anyway

THE PATTERN

Go back decades and the market has finished higher in the year after a midterm again and again. It is one of the most consistent patterns there is, and it lines up with the most predictable event on the calendar. You can see it coming from a mile off.

WHY IT WORKS

Markets hate not knowing what is coming more than they hate bad news itself. An unanswered question freezes people, so they sit on their cash and wait. Once the vote is done and that question mark lifts, the money on the sidelines starts looking for a home again, all at once.

THE REAL SIGNAL

The question is not is the economy good or bad. It is which way is the money moving. Get the direction of the money right and you are ahead of almost everyone, including people far cleverer and far busier worrying about the wrong thing.

THE 2023 LESSON

The headlines were grim, and the market went on to one of its best years in a decade, because the money had already turned before the news caught up. The people who waited for the all-clear in the papers missed almost all of it.

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THE 3 THINGS LINING UP AT ONCE

3 forces, pushing the same way

1. The AI spending wave is being digested, so the fear is now in the price

↓

2. The midterm uncertainty is about to clear, in a few weeks

↓

3. Fresh money is growing at the fastest pace in about 4 years

ONE: THE AI FEAR CLEARS

For 2 years the big technology companies poured hundreds of billions into AI, and the market worried whether it would ever pay off. But a wave of spending like that does not vanish. It works its way into the companies that supply the picks and shovels, then into the ones that use the stuff to make real money. The fear comes first. The payoff tends to come after.

WE HAVE SEEN THIS FILM

Railways, electricity, the internet, it goes the same way. Everyone piles in, they overbuild, the crowd panics, the weak players are washed out, and the ones left standing make a fortune on the very thing everyone had given up on. AI is walking that same path, and we are somewhere in the washout.

TWO: THE QUESTION MARK LIFTS

In a few weeks that one is gone, whichever way it goes, and the market loves having a question mark removed.

THREE: THE TAPS TURN BACK ON

On top of that, the central bank has stopped shrinking its balance sheet and started buying again through the short-term debt market. It is a vitamin shot into the market's arm. That money has to go looking for a return, and it very rarely sits still.

Most stocks have already fallen, so they are cheap. The fear that pushed them down is clearing. And fresh money is flooding in at the fastest rate in years. Cheap, plus fear lifting, plus a wall of money. That is the setup the Morgan Stanley strategist is reading when he calls it one of the best of his career.

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WHAT THE SKILLED MONEY DOES

The skilled money follows the money

> Skilled, not smart. They are not cleverer than you, they have just been trained better. They watch where the money is flowing and they go there. They do not fall in love with a stock and marry it for life. They have rules, and they follow them whether they feel like it or not.

~31%

long-run average of investors who say the market will be lower

70%+

bearish in early 2009, before a ~67% rise in a year

60%

bearish in autumn 2022, before the market climbed

IT GOES INTO QUALITY

It goes into companies that are actually growing their sales, growing their profits, and making a decent return on the money they put to work. A lot of the names that fell stay down, because there was a reason they fell. The skilled money is not bargain-hunting in the bin. It is buying the good businesses while the crowd is too frightened to look.

HOW FRIGHTENED THE CROWD IS

Will the market be higher or lower in 6 months? On average about 31% say lower. Lately the bears have far outnumbered the bulls.

WHY THAT IS BULLISH

In early 2009 more than 70% were bearish, the most frightened they had ever been, and the market then rose around 67% over the next year. In autumn 2022, 60% were bearish, and the market climbed from there too.

WHY IT WORKS

And if they have already sold, there is hardly anyone left to sell, and there is a mountain of cash on the sidelines waiting to come back in. The best time to buy almost always feels horrible.

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THE MISTAKE TO SAVE YOURSELF FROM

The market is not a thermometer for the economy

> People read the news, see the economy looks shaky, and assume the market must be about to crash. They treat the stock market like a thermometer for the economy. It isn't. It is measuring what companies will earn tomorrow, and how much money is sloshing about looking for a home.

Year	The economy	The market	Why
2020	Unemployment near 15%, worst since the Great Depression	At a record high by that August	The system was flooded with money, and it went straight into stocks
2022	Jobs fine, unemployment near a 50-year low	Fell 19%	The taps were being turned off and money was pulled out of the system

BOTH DIRECTIONS

It is the exact thing that gets the money people to loosen up again, which, as we have just seen, is already happening right now.

STOP READING THE ECONOMY, LOOK AT QUALITY

Is the business growing its sales? Is it growing its profit? Is it making a good return on what it owns? That is most of the game. Not the share price, not the story on the news, not whether some influencer likes it.

THE TOOL FOR IT

This is the sort of thing the Winston app was built for. You type in a company and get a clear score, and you can see at a glance whether the fundamentals are improving or rotting underneath the share price. There is even a danger-zone filter that flags the names most at risk of being in that falling 60%.

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WHAT YOU ACTUALLY DO

2 things, and neither of them is panic

> This is not financial advice, and I am not telling you what to buy. But there are 2 plain things the skilled money understands that most people never learn. Neither of them is complicated.

ONE: SAFE IS NOT SAFE

The same money printing that lifts the market is the thing that eats your cash. I measure it in hours of your life. The money you earned by giving up hours you will never get back is worth a little less every month it just sits there.

So a big idle cash pile is not the safe choice it feels like. It is a slow, quiet loss you never get a statement for.

TWO: LOOK AT QUALITY, NOT THE NEWS

Start looking at the business. Sales going up, profits going up, and a good return on the money the business actually uses.

Get those 3 right across a handful of names and you have already beaten most professional fund managers, who spend whole careers losing to a simple index because they overthink exactly this.

WHERE THE INDEX FAILS YOU

For 40 years that worked. But today it means leaning on a handful of giant names while most of the market falls underneath. Knowing what you actually hold matters more now than it has in a long time.

THE HONEST LOOK

They think they are spread out. They are leaning on the same few stocks as everyone else. The first move is simply to look.

In the Winston app I built, you can type in a company and get a clear quality score, and the danger-zone filter flags the names most at risk of being in the falling 60%. It is the honest look, on one screen. You can try it free for a month at **winstondaily.com**.

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TURN UNDERSTANDING INTO A PLAN

5 questions to hold up against your own money

- ✓ If I own the index, do I realise that a handful of giant names make up around 40% of it, and most of the rest have already fallen?
- ✓ How much am I holding in idle cash that the money printing is slowly eating, month after month?
- ✓ For the businesses I own, are their sales growing, are their profits growing, and do they make a good return on what they use?
- ✓ Am I buying quality while the crowd is frightened, or waiting for the all-clear in the headlines that always arrives too late?
- ✓ Am I arranging my money before the midterms and the months straight after, rather than reacting once it is already in the papers?

You do not need to score full marks today. You need to know where you stand, and move in the right direction while it is still early. The best time to act almost always feels uncomfortable. That is the whole game.

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LEARN THE SETUP YOURSELF

Learn it before the headlines do

How you arrange your money going into these midterms, and in the months straight after, is going to matter more than almost any single money decision you make in the next 2 years.

Most people find out about a setup like this a year later, when it is done and the easy money has already been made by somebody else. You are early. That is the whole game.

WHY NOW

The spending taps are about to open, the AI fear is clearing, and fresh money is flooding in at the fastest pace in about 4 years. The window is not a year away. It is the next few weeks.

Arrange your money while you still have the choice, not after the next headline has already moved the price.

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Analyst: Winston, Lead Analyst, The Prehn Institute Research.

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